

Message Text

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ACTION EUR-12

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 8530

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E.O. 11652: N/A

TAGS: ECON, CA

SUBJ: DECEMBER DECLINE IN INFLATION RATE

1. STATISTICS CANADA REPORTED ON JAN 15 THAT CONSUMER PRICE INDEX FOR DECEMBER ROSE ONLY 0.1 PERCENT, REGISTERING SMALLEST MONTH-TO-MONTH INCREASE SINCE OCTOBER 1972. DECEMBER CPI WAS 144.3 VERUS 144.1 IN NOVEMBER (1971 EQUALS 100).

2. SLOWING OF RATE OF INCREASE ATTRIBUTED TO DROP OF 0.7 PERCENT IN FOOD COMPONENT (167.2 IN DECEMBER VERSUS 168.3 IN NOVEMBER) WITH LOWER PRICES FOR PORK, BEEF, FRESH FRUIT, CEREAL AND BAKERY PRODUCTS.

3. ALL-ITEMS INDEX, EXCLUDING FOOD, WAS UP 0.5 PERCENT (TO 136.4 FROM 135.7) WITH 0.9 PERCENT INCREASE IN HOUSING, 0.5 PERCENT RISE IN CLOTHING AND 0.1 PERCENT INCREASE IN TRANSPORTATION.

4. ON SEASONALLY-ADJUSTED BASIS, ALL-ITEMS CPI ROSE 0.3 PERCENT WITH 0.4 PERCENT DECREASE IN FOOD COMPONENT. IN DECEMBER, CURRENT CHANGE IN CPI, BASED ON SEASONALLY ADJUSTED MOVEMENT SINCE THREE MONTHS EARLIER WAS 10 UNCLASSIFIED

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PERCENT, DOWN FROM 11 PERCENT IN NOVEMBER.

4. DECEMBER CPI WAS 9.5 PERCENT ABOVE DECEMBER 1974 LEVEL, WHICH, ACCORDING STATCAN, WAS FIRST TIME IN NEARLY TWO YEARS THAT ANY TWELVE-MONTH CHANGE HAS REGISTERED LESS THAN 10 PERCENT.

5. COMMENT: IN NOVEMBER, MAJOR FOOD CHAINERS IN CANADA ANNOUNCED PRICE FREEZE ON NON-PERISHABLE FOOD ITEMS AND THIS ACTION PROBABLY CONTRIBUTED TO DECLINE IN FOOD INDEX AS MEAT PRICES, PARTICULARLY PORK, DECREASED FROM EXTREMELY HIGH LEVELS OF EARLY FALL. FREEZE WILL EXPIRE IN MID-JANUARY.

6. LATEST FORECASTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS PEG CPI RISE FOR 1976 AT ABOUT 9 PERCENT WITH SOME ABATEMENT IN LATTER PART OF YEAR. EXPECTED INCREASES IN TRANSPORTATION, HOUSING, REAL ESTATE TAXES, DISCONTINUANCE OF FOOD STORE PRICE FREEZE, AND END OF SOME PROVINCIAL MEASURES (E.G. ONTARIO TAX REBATE PROGRAM FOR NEW CARS AND LOWERING OF SALES TAX) WILL BE CONTRIBUTING FACTORS. MITIGATING FACTORS WILL BE FEDERAL AND PROVINCIAL ANTI-INFLATION PROGRAMS.
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